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RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
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SUBJECT: APPROVAL BUT NO MONEY FOR PPP GOVERNMENT'S FIRST MEGA
INFRASTRUCTURE PROJECT

¶1. (SBU) Summary: The Government of Pakistan (GOP) has finally approved the construction of the USD 12.6 billion Diamer-Basha Dam originally announced in 2006. The dam will reportedly store 6.3 million acre-feet of water and to generate 4,500 MW of electricity. Given the recent economic downturn, access to credit will be difficult and it remains to be seen if this dam will be constructed. The World Bank and Asian Development Bank have indicated that they will not fund this project since it is in disputed territory. Pakistan desperately needs more power and water to help stabilize its economy and improve power generation, but will have a hard time finding investors for mega-projects in a down economy. End Summary.

DAM APPROVED BUT FUNDING STILL LACKING

¶2. (SBU) On November 11, the Executive Committee of National Economic Council (ECNEC) finally approved the construction of Diamer-Basha Dam, the world's highest roller-compacted concrete dam at a cost of USD 12.6 billion. The idea for this dam was originally announced in January 2006 by former President Musharraf.

¶3. (SBU) At a press briefing, Federal Minister for Water and Power Pervez Ashraf reportedly said that the government would open bids for pre-qualification by November 30. He noted that the World Bank and Asian Development Bank would not finance this project as it would be located in what they consider disputed territory. The media further reported that Ashraf said the project would benefit the country by providing electricity worth USD 1.5 billion per year, recouping the cost of the project its seventh year of operation. Ashraf reportedly also said that both the North West Frontier Province (NWFP) and the Northern Areas have agreed on the royalty formula and would get royalties per their land rights.

¶4. (SBU) Water and Power Distribution Authority (WAPDA) Chairman Shakeel Durani told reporters he does not see any problem in obtaining financing for the project, as any firm capable of bidding on the USD 5 billion contract for construction work will also have access to credit financing agencies. He added that WAPDA has received very encouraging responses from Chinese and Middle Eastern firms. However, Ministry of Water and Power Joint Secretary Arshad Mahmood (Power) and Joint Secretary Arif Hussain (Water) told EconOff on November 12 that raising USD 5 billion through supplier's credit would be very challenging, and the GOP may consider a public private partnership for this project.

PROJECT DETAILS

15. (SBU) The project site is located on the Indus River, approximately 315 km upstream of the Tarbela Dam, 165 km downstream of the Northern Area capital Gilgit and 40 km downstream of Chilas. The proposed dam would have a maximum height of 270 meters, create a reservoir of about 6.3 million acre-feet, originally planned for 7.3 million acre-feet, and generate 4,500 megawatts of electricity. The dam reservoir will store 15 percent of the annual river flow and will cover an area of 110 square kilometers. The GOP expects the project to be completed within seven years.

16. (SBU) In April 2008, the GOP discovered Buddhist artifacts at the site of the Diamer-Basha Dam. The GOP has now decided to move 30,000 of the artifacts to a newly built museum near the dam site. Water and Power Development Authority (WAPDA) Chairman Shakeel Druani told reporters that acquisition of the land and the resettlement of residents near the proposed Diamer-Basha dam would cost USD 745 million, while the relocation of the relics to a museum would cost USD 1 million. A total of 28,000 people will be displaced by the dam; however, the GOP will reportedly compensate them through a comprehensive resettlement plan.

17. (SBU) Tarbela, Mangla and Chashma reservoirs have already lost approximately 5 million acre-feet due to sedimentation. It is estimated that by 2012, this loss will increase to 6 million acre-feet, almost equal to the original combined capacity of Mangla

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and Chashma reservoirs. The GOP has not constructed any sizeable multi-purpose water storage facilities since the commissioning of the Tarbela Dam in 1976.

18. (SBU) Comment: The proposed dam would greatly benefit Pakistan both in terms of power generation and water storage. However, it remains to be seen if the dam can be constructed largely through supplier's credit and domestic resources at a time when the domestic economy is slowing down and the global economy is facing a severe financial crisis. If the GOP plans to build the dam through a public private partnership it will have to change present laws that prevent private hydroelectric projects on the Indus River and find a private company that is willing to invest USD 5 billion in equity. End Comment.

PATTERSON